2014-15 Nunavut Liquor Commission Annual Report

TABLED IN THE LEGISLATIVE ASSEMBLY

BY THE HONOURABLE KEITH PETERSON, MLA

MINISTER OF FINANCE

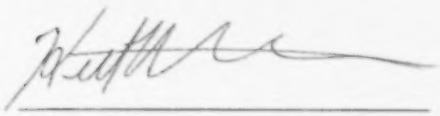
LETTER OF TRANSMITTAL

The Honourable Nellie T. Kusugak
Commissioner
Government of Nunavut

Dear Madame,

I have the honour of presenting the Annual Report for the Nunavut Liquor Commission covering the period April 1, 2014 to March 31, 2015.

Respectfully submitted,



Hon. Keith Peterson
Minister of Finance
Minister Responsible for Liquor

LETTER TO THE MINISTER

The Honourable Keith Peterson
Minister of Finance
Minister Responsible for Liquor

Nunavut Liquor Commission 2014-15 Annual Report

Pursuant to Subsection 61(1) of the *Liquor Act*, we are pleased to submit the 2014 – 2015 Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2015.

We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Commission during this past year.

Chris D'Arcy
Deputy Minister

Marion Love
Director of Nunavut Liquor Commission

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NUNAVUT LIQUOR COMMISSION

ORGANIZATIONAL OVERVIEW

The Commission is charged with operating liquor stores, purchasing, selling, classifying and distributing alcohol beverage products in Nunavut, as well as administration of Part II of the *Nunavut Liquor Act*. The Commission follows the reporting stipulations outlined in Part II of the Act and Part IX of the *Financial Administration Act*.

The Commission, in exercising its powers and performing its duties, is bound by the *Liquor Act* to the direction of the Minister. The Commission is headed by a Director who reports to the Minister through the Deputy Minister of Finance, as shown in the Organizational Structure in Figure 1. The Director oversees a staff of 13 employees, divided between Rankin Inlet and Iqaluit, including the Manager of Liquor Enforcement and Inspections, and Inspectors in Iqaluit and Rankin Inlet.

With its headquarters in Rankin Inlet, the Commission manages its retail and wholesale business through two distribution warehouses, one in Rankin Inlet and the other in Iqaluit. The Commission also oversees one permit agent office on contract in Cambridge Bay and provides permit services in-house in Rankin Inlet and Iqaluit. The Permit Agent Offices provide, for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

ORGANIZATIONAL STRUCTURE

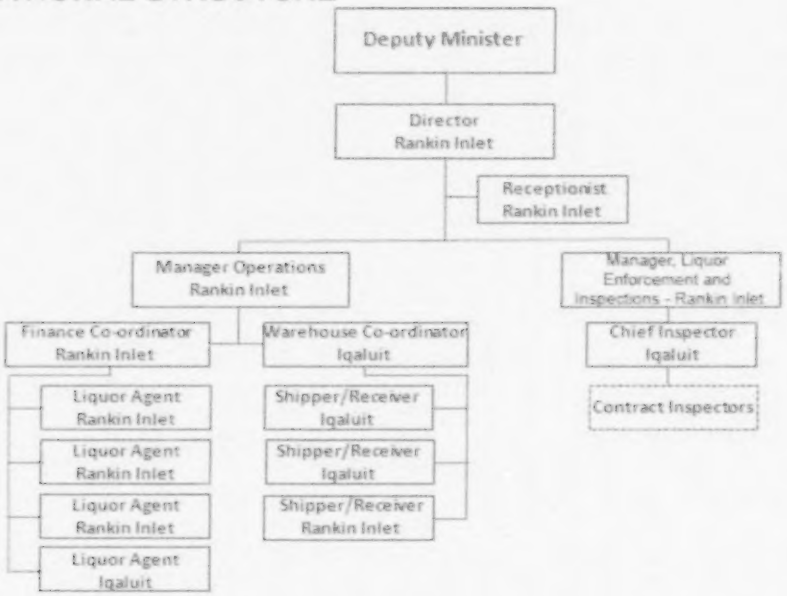

Figure 1: Organization Chart

LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructure challenges make liquor retailing in the territory unconventional in the Canadian context. With a total population of approximately 36,702[1], 60 per cent of whom are of legal drinking age, the major challenge for liquor retailing in Nunavut is the need to service a very limited market, connected only by air and limited seasonal sea access, and spread out over a fifth of Canada's land mass.

Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada is its central processing structure. The Commission currently does not operate any liquor stores and all liquor orders are processed through the Commission's headquarters in Rankin Inlet and distributed via air cargo from either of the Commission's warehouses located in Iqaluit and Rankin Inlet. Licensed outlets are the exception; their purchases are picked up at the closest Commission warehouse.

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's entire liquor inventory is purchased on behalf of the Commission by the Department of Community and Government Services' (CGS) Procurement Division.

As a matter of policy, the Procurement Division of CGS attempts to buy all products directly from breweries and distilleries. Due to small order volumes, some products are purchased through the Société des Alcools du Quebec (SAQ) or the Liquor Control Board of Ontario (LCBO).

Table 1: Mark-ups by category	
Spirits	$26.11
Wine	$7.96
Coolers	$3.27
Beer	$2.37

The Commission uses a flat rate per litre mark-up in the pricing of alcohol beverage products. An administration fee of $0.27 per litre is also applied.

The Commission's necessary reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshaling costs not commonly experienced across Canada.

One logistical hurdle concerns the payment of liquor orders through the Commission. At the present time, certified money instruments that include Money Orders, certified cheques, bank draft, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Commission also accepts credit cards (Visa, Mastercard and American Express) for product payment, and residents of Iqaluit and Rankin Inlet are also able to use their debit cards for product payment. Once confirmed that payment has been received, the Commission ensures the product order is packaged and delivered to the airline for delivery to its destination.

Over and above the product price, there is an additional charge for handling and local cartage of $10 (plus GST) per order, and a bottle deposit return fee. The shipment is then sent freight collect to the customer. Freight costs vary, depending on distance, community and carrier used.

[1] Nunavut Statistics, January 01, 2015 Population Statistics

Flight schedule structures serving Nunavut impose a *de facto* waiting period on all liquor purchases in the territory (Licensees and holders of Special Occasion Permits exempt). Iqaluit residents must purchase their alcohol from the Rankin Inlet warehouse and conversely Rankin Inlet residents must purchase their alcohol from Iqaluit. All other eligible residents of Nunavut may place their order at either facility.

BEER AND WINE STORE

A petition was received during the fiscal year from residents of Iqaluit regarding the opening of a beer and wine store. The petition was signed by 95 residents of Iqaluit requesting that the GN hold public consultations in Iqaluit to determine whether a government-run licensed beer and wine store is wanted in the capital city.

The Commission proceeded to conduct public consultations with residents and community groups in the fall of 2014. Consultations also included the feedback from questionnaires.

A variety of community groups made presentations and/or had questions of the Commission. The turnout for the public forum was greater than anticipated. The Commission received ample feedback indicating that there was support for a beer and wine retail outlet.

A non-binding plebiscite was held under the new *Plebiscite Act* in April 2015 in Iqaluit, and approximately 77 percent of the voters were in favor of opening a beer and wine store.

A final decision as to whether or not to open a pilot beer and wine store has not yet been made.

SOCIAL RESPONSIBLE DRINKING

With the passing of the *Liquor Act* amendments, s. 59.1, $500K has been allocated to Social Responsible (SRD) drinking promotions for the 14-15 budget and will continue for successive fiscal years.

In 2014-15 SRD funding was allocated to sponsoring a "Thank you for not drinking" campaign during the 2014 Holiday season for the communities of Iqaluit, Rankin Inlet and Cambridge Bay. Several businesses contributed to the promotion. The RCMP and bylaw officers handed out taxi vouchers/coupons to the general public prior to the holiday season. Coupons were also made available to any customers purchasing alcohol prior and during the holiday in all three communities.

The Commission advertised in Nunavut newspapers to the support the "Thank you for not drinking" campaign. The Commission will continue to support community holiday anti-drinking advertising campaigns.

The Commission also assisted the Department of Health in its annual Fetal Alcohol Syndrome Awareness Day by distributing materials with all orders from each warehouse. The Canadian Standards for low-risk alcohol consumption were translated into the official languages of Nunavut for distribution across Nunavut.

In the 2015-16 fiscal year the Commission will be issuing a request for proposals to develop a three year strategy to further promote socially responsible drinking across Nunavut.

LIQUOR ENFORCEMENT AND INSPECTIONS

LIQUOR ENFORCEMENT AND INSPECTIONS ACTIVITY REPORT

All distribution of alcoholic beverage products authorized by liquor licenses and special occasion liquor permits issued under the Act are subject to inspection by Liquor Enforcement and Inspections. These inspections, also known as spot checks, are to ensure adherence to the Act and Regulations. Conditions pertaining to fire risk, health and safety infractions, and the use of tobacco in and around premises licensed for the sale of liquor are also subject to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Liquor Enforcement and Inspections at the Commission headquarters in Rankin Inlet.

Infractions are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Act, and may result in the suspension of a license.

Table 2: Nunavut's Liquor Restriction Systems

The Liquor Act provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48(2) of the Act these systems are:

1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;
2. A restricted quantities system has, in addition to the general liquor laws, restrictions on the quantity of liquor that a person may purchase
3. A committee system, in which a locally elected alcohol education committee decides:
   - who may consume, possess, purchase or transport liquor in the settlement, municipality or area,
   - who may import liquor into the settlement, municipality or area under the Act,
   - the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,
   - who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and
   - who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew;
4. A prohibition system, prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.

The Commission keeps a roster of two contract inspectors in Iqaluit, one inspector each in Rankin Inlet and Cambridge Bay. Regularly scheduled inspections were carried out with more focus on the busier evenings through the week and weekend. The Commission spent $20,300 on spot checks at a rate of $30 per inspection. There were 677 total inspections for 2014-15

Table 3: Fee Structure

Import Permit Fees	
Spirits	$3.75 per litre
Wine	$2.00 per litre
Coolers	$0.59 per litre
Beer	$0.56 per litre

Nunavummiut may also make a purchase through an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their alcohol beverage product from outside the territory, individuals must purchase an import permit from one of the three permit agent offices in Cambridge Bay, Rankin Inlet or Iqaluit.

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community's AEC to seek approval to bring alcohol beverage products into the community. The AEC may place restrictions on the purchase or even deny the application (see Table 2 for liquor restriction systems and Table 4 for community system breakdown).

Once an individual has obtained permission from the community AEC, an order may be placed or a permit purchased.

One final aspect of liquor retailing in Nunavut is the Commission's effort to encourage recycling through container deposits. The Commission places a container deposit on all liquor purchases made, whether bottle, can, or other, and is prepared to accept returned empty liquor containers at any established recycling centre. The Commission charges $0.29 for bottles and $0.14 per can.

Only one plebiscite was ordered by the Minister during the fiscal year for the community of Taloyoak. There was no change in the status of this community as a result of the plebiscite.

Alcohol Education Committee (AEC) elections were conducted in the 14 restricted communities during December 2014, except for Qikiqtarjuaq. Many new members were elected.

Table 4: Breakdown of communities by their chosen system

Unrestricted	Committee	Prohibited
Cambridge Bay	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cape Dorset	Gjoa Haven
Rankin Inlet	Chesterfield Inlet	Kugaaruk
Taloyoak	Clyde River	Pangnirtung
	Hall Beach	Sanikiluaq
	Igloolik	
	Kimmirut	
	Kugluktuk	
	Pond Inlet	
	Qikiqtarjuaq	
	Repulse Bay	
	Resolute Bay	
	Whale Cove	

MANAGEMENT DISCUSSION AND ANALYSIS AND UNAUDITED SCHEDULES

The fiscal year 2014-15 was the Commission's eleventh full year of operation since taking over responsibility for the public agency from the Government of the Northwest Territories in October 2004.

Overall, the Commission sold 593,499 liters of alcohol in Nunavut worth $5,874,000 in 2014-15.

Table 5: Gross Product Sales						
	2014-15		2013-14		Change vs 2014	
	Litres	$000s	Litres	$000s	Litres	$000s
Spirits	38,182	1,529	39,296	1,570	-1,114	-41
Wine	38,691	655	37,072	636	1,619	19
Cooler	9,438	82	9,492	83	-54	-1
Beer	507,188	3,104	490,273	3,027	16,915	77
Product Sales	593,499	5,370	576,133	5,316	17,366	54
Other Revenue	-	504	-	489	0	15
Total	593,499	5,874	576,133	5,805	34,732	123

Total revenue increased by $69,000 or 1% between 2013-2014 and 2014-2015. Customers in the Kivalliq region have continued to import alcohol from Manitoba.

Import Permits, Licensee Fees, Licenses, Special Occasion Permits and fines generated a total of $979,000 in revenue.

This is broken out by $779,000 in Import Permit Fees and $200,000 in Licensee Fees, License Renewal Fees and Special Occasion Permits. No fines were collected in the 2014-15 fiscal year.

Table 6:Import Permit License Fees $000's				
Category	2014-15	2013-14	Change	% Change
Import Fees	779	728	51	7%
License & SOP	200	191	9	5%
Fines	0	1	-1	-100%
Total	979	920	59	6%

Enforcement Salaries decreased as the Manager of Enforcement and Licensing remained vacant during the fiscal year. The Commission's net income decreased by $253,026 in 2014-15, mainly as a result of increases in Administrative Expenses.

The following two tables (7 and 8) show the total sales from the Liquor Commission operated liquor warehouses, situated in Rankin Inlet and Iqaluit.

Table 7: Sales by Location in Litres							
Litres	Iqaluit		Rankin Inlet		Total		Change
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	
Spirits	27,043	26,915	11,139	12,381	38,182	39,296	-3%
Wine	29,647	28,682	9,044	8,390	38,691	37,072	4%
Cooler	7,007	7,481	2,432	2,011	9,439	9,492	-1%
Beer	458,273	433,198	48,914	57,075	507,187	490,273	3%
Total	521,970	496,276	71,529	79,857	593,499	576,133	3%

Table 8: Sales by Location in $000's							
Category	Iqaluit		Rankin Inlet		Total		Change
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	
Spirits	1,086	1,071	443	499	1,529	1,570	-3%
Wine	505	490	150	146	655	636	3%
Cooler	63	66	19	17	82	83	-1%
Beer	2,799	2,676	305	351	3,104	3,027	3%
Product Sales	4,453	4,303	917	1,013	5,370	5,316	1%
Other Revenue	418	396	86	93	504	489	3%
Total	4,871	4,699	1,003	1,106	5,874	5,805	1%

As we can see in the above tables, the volume of sales overall increased only by 1%. Sales from the Rankin Inlet warehouse decreased by 9%; whereas Iqaluit warehouse sales increased by 4% during the fiscal year.

CUSTOMER SALES BY COMMUNITY

We are experiencing a drop in customer sales and have seen a rise in the sales of import permits (See table 6); indicating customers find it increasingly favorable for them to import their alcohol from outside our territory.

Table 9: Customer Sales by Community for the Fiscal Years 2010 to 2014							
Community	2011	2012	2013	2014	2015		2011 vs2015
Iqaluit	451,557	512,022	465,324	418,376	386,187		-14%
Baker Lake	405,035	448,800	466,579	411,183	309,206		-24%
Igloolik	160,450	144,771	167,521	163,826	177,663		11%
Cape Dorset	162,589	163,411	126,518	130,552	186,452		15%
Pond Inlet	165,298	124,552	109,754	124,530	95,081		-42%
Rankin Inlet	355,403	206,754	135,523	100,812	83,649		-76%
Kimmirut			71,769	67,577	56,021		-22%
Clyde River	68,320	82,827	93,164	66,940	77,345		13%
Resolute Bay	41,579	48,455	**58,116**	52,310	58,639		41%
Hall Beach	79,377	66,298	64,960	51,878	49,228		-38%
Repulse Bay	44,550	37,959	38,850	46,151	54,919		23%
Chesterfield Inlet	24,935	27,167	26,067	44,068	39,543		59%
Whale Cove	45,743	40,520	41,272	43,016	38,641		-16%
Arctic Bay	42,046	34,888	35,110	34,606	36,680		-13%
Qikiqtarjuaq	10,717	18,246	24,131	22,613	13,573		27%
Grise Fiord	16,492	20,323	17,122	**20,536**	25,505		55%
Grand Total	2,074,092	**1,976,994**	**1,941,782**	**1,798,973**	**1,688,332**		-19%

Notes: Highest sales are highlighted as XXX

Sales exclude GST, bottle deposits and handling fees.

Amounts are for only individual customers and do not include purchases from Special Occasion permits, Licensees, or other purchases made by outfitters and group customers.

The highest yielding sales year was 2011 with a 24% increase over the previous year.

Table 10: Customer Sales by Category with Net 5 Year Change						
Category	2011	2012	2013	2014	2015	Change 2015-2011
Beer	435,805	424,797	438,720	432,050	367,238	-16%
Coolers	32,929	26,735	20,106	22,407	18,322	-44%
Spirits	1,431,267	1,316,201	1,261,106	1,128,519	1,078,335	-25%
Wine	174,091	209,261	221,850	215,998	199,951	15%
Total	**2,074,092**	**1,976,994**	**1,941,782**	**1,798,974**	**1,663,846**	-20%

Customers in Iqaluit and Baker Lake are the two communities that purchase the most alcohol through the Nunavut Liquor Commission and that have experienced the largest increases in the past five years. We expect this trend to continue in coming years.

Rankin Inlet has experienced a dramatic drop in sales, 76% over the last five years, from the Liquor Commission and it seems that the customers in Rankin Inlet prefer importing their alcohol from other jurisdictions and that this is a trend that will continue unless the Liquor Commission can improve service and convenience to again attract more customers from Rankin Inlet.

Table 11: Permit Sales with 5 Year Change						
Category	2011	2012	2013	2014	2015	Change 2015-2011
Beer	110,987	116,969	114,662	113,149	109,569	-1%
Coolers	1,941	2,438	2,415	2,258	2,052	6%
Spirits	287,531	354,050	376,299	387,416	406,568	41%
Wine	51,464	59,747	73,098	84,995	87,667	70%
Total	**451,923**	**533,204**	**566,474**	**587,818**	**605,856**	34%

SALES BY CATEGORY

When comparing customer warehouse and permit sales to Licensees sales, several trends emerge. Licensees Sales have increased over the previous fiscal year, but still lag behind 2011 Sales by 4%.

Secondly, customers may be still choosing to consume alcohol in the comfort of their own homes as permit sales have increased while customer warehouse sales continue to decline. 2015 Customer sales figures were the lowest in the 5 years reported. It is interesting to note that the revenue from Customer wine sales have increased significantly over the past five years.

Permit sales for 2015 are the highest over the five period. Rankin Inlet permit sales dramatically increased over the five year period just as warehouse sales decreased. Many Rankin Inlet customers have claimed that it is cheaper to bring liquor from Churchill, Manitoba than it is to order from Iqaluit.

Table 12: Licensees Sales with 5 Year Change						
Category	2011	2012	2013	2014	2015	Change 2015-2011
Beer	3,101,958	3,027,094	2,853,107	2,659,081	2,870,522	-7%
Coolers	87,193	69,234	67,653	62,763	66,503	-24%
Spirits	482,471	478,687	458,114	451,284	481,653	0%
Wine	372,568	384,096	415,626	428,066	443,925	19%
Total	**4,044,190**	**3,959,111**	**3,794,500**	**3,601,194**	**3,862,603**	-4%

IMPACT OF IMPORT PERMITS

When a permit is issued, Nunavut "loses" the mark-up from the sale of the item. The mark-up (see p. 2 for additional information on the legislative mark-up) for 1 L of spirits sold in Nunavut is $26.11. Thus a sum of $22.36 is lost for every litre of spirits that are purchased outside Nunavut such as Northwest Territories (via Yellowknife), and Manitoba (via Churchill) Liquor Commissions and vendors in Quebec and Ontario.

Nunavut lost in excess of three million dollars to imported liquor which represents 52% of our overall gross sales.

Table 13: Lost Mark-Up from the Issuance of Import Permits					
For the Year ending March 31, 2015					
	Iqaluit	Rankin	Kitikmeot		Total
Spirits ($26.11 - $3.75)	1,365,735	561,460	497,040		2,424,236
Wine ($7.96 - $2.00)	182,929	49,879	28,441		261,249
Beer ($2.37 - $0.56)	225,533	78,789	49,822		354,145
Coolers ($3.27 - $0.69)	3,491	2,361	3,122		8,973
Total lost revenue	1,777,688	692,489	578,425		3,048,602
Net Change in Lost Revenue from Issuance of Import Permits					
2010 to 2014 Comparative Changes (Percentage %)					
	Iqaluit	Rankin	Kitikmeot		Total
Spirits	9%	-5%	5%		5%
Wine	-1%	16%	11%		3%
Beer	-4%	-6%	5%		-4%
Coolers	-21%	8%	-5%		-9%
Net Change	6%	-4%	5%		3%

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2015

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Nunavut Liquor Commission (NLC) is responsible for the integrity and objectivity of the consolidated financial statements and related note disclosures. The consolidated financial statements were prepared in accordance with Canadian Public Sector Accounting Standards and, consequently, include some amounts which are based on the best estimates and judgment of management.

In carrying out its responsibilities, management is responsible for the operation of financial systems and related internal controls to provide reasonable assurance that financial information presented by the management of NLC is reliable, assets are safeguarded, transactions are properly authorized, resources are managed efficiently and economically, and operations are carried out effectively in the attainment of corporate objectives, and that transactions are in accordance with the *Liquor Act* and the *Financial Administration Act* of Nunavut.

The external auditors, Lester Landau, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of NLC and meet when required.

Chris D'Arcy
Deputy Minister
Department of Finance

Marion Love
Director
Nunavut Liquor Management

June 29, 2015

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of the Government of Nunavut

We have audited the accompanying consolidated financial statements of the Nunavut Liquor Commission, which comprise the consolidated statement of financial position as at March 31, 2015 and March 31, 2014 and the consolidated statements of operations, changes in net financial debt, amount due to the Government of Nunavut, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at March 31, 2015 and March 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with Canadian Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of Nunavut we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* of Nunavut and regulations, and the by-laws of the Nunavut Liquor Commission that, in our opinion, proper books of account have been kept by the Nunavut Liquor Commission, the consolidated financial statements are in agreement therewith and the transactions that have come under our notice have, in all significant respects, been within the statutory powers of the Nunavut Liquor Commission.

Iqaluit, Nunavut
June 29, 2015

CHARTERED ACCOUNTANTS

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	March 31 2015	March 31 2014
Financial Assets		
Cash	$ 750	$ 750
GST receivable	3,420	39,549
Inventories (note 3)	1,641,859	1,559,621
	1,646,029	1,599,920
Liabilities		
Accounts payable and accrued liabilities	125,433	62,462
Employee future benefits (note 4)	126,303	123,078
Bottle deposit outstanding	24,012	18,192
Deferred revenue	35,148	27,624
Due to Government of Nunavut	1,432,702	1,445,327
	1,743,598	1,676,683
Net Financial Debt	(97,569)	(76,763)
Non-Financial Assets		
Prepaid expenses	6,311	12,623
Tangible capital assets (note 5)	91,258	64,140
	97,569	76,763
Accumulated Surplus	$ -	$ -

Commitments (note 7)

Marion Love
Director
Nunavut Liquor Management

Chris D'Arcy
Deputy Minister of Finance
Department of Finance

The accompanying notes and schedules are an integral part of these consolidated financial statements. 4

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31,	2015	2014
Sales	$ 5,874,227	$ 5,804,448
Cost of Sales	2,268,781	2,236,836
Gross Margin	3,605,446	3,567,612
Other Income		
Import fees	722,104	728,026
Interest and other income	6,412	-
Licence, fees and permits	199,683	192,054
	4,533,645	4,487,692
Expenses		
Administration and operations (Schedule 1)	3,040,865	2,662,084
Enforcement and inspections (Schedule 2)	329,834	409,636
	3,370,699	3,071,720
Net Surplus	1,162,946	1,415,972
Accumulated Surplus, beginning of year	-	-
Accumulated Surplus, end of year	$ -	$ -

The accompanying notes and schedules are an integral part of these consolidated financial statements. 5

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL DEBT

For the year ended March 31,		2015		2014
Net surplus for the year	$	1,162,946	$	1,415,972
Amortization of tangible capital assets		16,889		14,529
Disposal (acquisition) of tangible capital assets	(	44,007)	(	21,822)
Prepaid expenses		6,312	(	12,623)
Transfer of net surplus for the year to the Government of Nunavut	(	1,162,946)	(	1,415,972)
	(	1,183,752)	(	1,435,888)
Decrease (increase) in net financial debt	(	20,806)	(	19,916)
Net financial debt, beginning of year	(	76,763)	(	56,847)
Net financial debt, end of year	$(	97,569)	$(	76,763)

The accompanying notes and schedules are an integral part of these consolidated financial statements. 6

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT

For the year ended March 31,	2015	2014
Balance, beginning of year	$ 1,445,327	$ 1,341,734
Net surplus for the year	1,162,946	1,415,972
Net transfer of funds to the Government of Nunavut	(1,175,571)	(1,312,379)
	$ 1,432,702	$ 1,445,327

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,		2015		2014
Cash Flows from Operating Activities				
Cash receipts from customers	$	6,846,079	$	6,679,577
Cash paid to suppliers and employees	(	5,626,501)	(	5,345,376)
Cash transferred to the Government of Nunavut (Net)	(	1,175,571)	(	1,312,379)
Cash Provided by Operating Activities		44,007		21,822
Purchase of property and equipment	(	44,007)	(	21,822)
Cash Used in Investing Activities	(	44,007)	(	21,822)
Net Increase / (Decrease) in Cash		-		-
Cash, beginning of year		750		750
Cash, end of year	$	750	$	750

The accompanying notes and schedules are an integral part of these consolidated financial statements.

1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2014 - 2015 fiscal year. While some expenses are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licences and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

2. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

(b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. All inter-entity balances and transactions, if any, were eliminated in determining the consolidated figures.

2. Significant Accounting Policies (continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian Public Sector Accounting Standards requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, services received without charge, the provision for employee future benefits and the useful lives of equipment.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of a small cash float that is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Liquor Revolving Fund. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All sales and other cash receipts of the Nunavut Liquor Enforcement are deposited into the Government of Nunavut Consolidated Revenue Fund. All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a first-in, first-out basis.

(f) Accounts Receivable

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the balance sheet date that are known at the date these consolidated financial statements are prepared.

2. Significant Accounting Policies (continued)

(g) Tangible Capital Assets

Tangible Capital Assets are initially recorded at cost, and are subsequently amortized to expense. Amortization expense is recognized on a declining balance basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

Computer hardware	30%
Computer software	100%
Furniture and equipment	20%
Leasehold improvements	10 years straight line

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave, and severance liabilities have been included in accrued liabilities.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Deferred revenue includes revenues received in advance of goods being provided or services being performed with stipulations that meet the definition of a liability per Section PS 3200. When stipulations are met, deferred revenue is recognized as revenue in the fiscal year in a manner consistent with the circumstances and evidence used to support the initial recognition of the revenue received as a liability.

2. Significant Accounting Policies (continued)

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 1.28 times the employees contribution for the calendar year of 2015 (1.45 times for the calendar year of 2014). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

(l) Revenue Recognition

Revenue from sales of liquor and import fees are recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from licence fees and permits are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund without reimbursement.

(n) Services Provided Without Charge

There are no longer any services provided without charge to the NLC.

2. Significant Accounting Policies (continued)

(o) Financial Instruments

The NLC initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The NLC subsequently measures all its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee future benefits, bottle deposit outstanding and amounts due to the Government of Nunavut.

(p) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Surplus for the year, less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's Net Surplus.

This balance is a non-interest bearing liability.

3. Inventories

	March 31 2015	March 31 2014
Spirits	$ 560,621	$ 530,208
Wine	376,878	318,715
Beer	676,290	682,525
Coolers and ciders	28,070	28,173
	$ 1,641,859	$ 1,559,621

4. Employee Future Benefits

Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. As at March 31, 2015 severance and removal costs total $51,327 ($50,471 - 2014).

Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and best five years average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2015	2014
Employer's contributions	$ 142,866	$ 136,467
Employees' contributions	$ 102,154	$ 85,865

The Employee Future Benefits accrued by the NLC for the current year relate to accrued leave benefits.

5. Tangible Capital Assets

	Cost	Accumulated Amortization	March 31 2015 Net Book Value	March 31 2014 Net Book Value
Computer hardware	$ 53,669	$ 48,881	$ 4,788	$ 6,839
Computer software	50,777	50,777	-	-
Furniture and equipment	181,130	114,103	67,027	57,301
Leasehold improvements	20,466	1,023	19,443	-
	$ 306,042	$ 214,784	$ 91,258	$ 64,140

6. Expenses by Object

	2015	2014
Salaries and benefits	$ 1,898,780	$ 1,826,440
Rent	506,321	443,516
Bottle deposits refund	211,840	167,347
Professional fees	42,954	12,989
Repairs and maintenance	106,712	90,324
Contractor fees	94,968	79,437
Office	191,575	112,384
Bank charges and interest	107,465	93,302
Utilities	84,347	74,117
Travel	53,386	103,345
Communication	11,927	39,462
Plebiscite expenses	2,246	11,070
Amortization	16,889	14,529
Training and development	1,410	3,458
Advertising and promotion	38,933	-
Bad debt provision	946	-
	$ 3,370,699	$ 3,071,720

7. Commitments

There is a two year lease effective April 1, 2014, expiring April 1, 2016, for warehouse and office premises in Rankin Inlet. A five year lease agreement, effective April 1, 2012, and expiring April 1, 2017, for the liquor warehouse in Iqaluit valued at $120,000 per year is also in place. Additional warehouse space was leased as of October 1, 2014 for a term of five years expiring September 30, 2019. The minimum annual lease payments are as follows:

Fiscal year ending March 31	Total
2016	$ 533,094
2017	281,058
2018	161,058
2019	161,058
2020	80,528
	$ 1,216,796

8. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

	2015	2014
Government of Nunavut:		
Communications	$ 9,350	$ 9,350
Office	22,177	36,442
Rent (note 7)	253,307	162,000
Repairs and maintenance	47,903	89,155
Property taxes	34,719	29,874
Qulliq Energy Corporation		
Utilities (electricity)	15,960	14,008
	$ 383,416	$ 340,829

9. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advance for the 2014-15 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.

10. Financial Instruments and Risk Management

Credit Risk - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

Interest Rate Risk - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk because the NLC has no investments or debt.

Liquidity Risk - Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk, although some expenses of NLC are paid directly from the Liquor Revolving Fund, others are paid directly by the Government of Nunavut through the Consolidated Revenue Fund and reimbursed from the Liquor Revolving Fund.

Foreign Currency Risk - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

11. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE 1 - NUNAVUT LIQUOR COMMISSION

For the year ended March 31,		2015		2014
Sales	$	5,874,227	$	5,804,448
Cost of Sales		2,268,781		2,236,836
Gross Margin		3,605,446		3,567,612
Interest and other income		6,412		-
Prior year recoveries	(	779,350)		-
		2,832,508		3,567,612
Expenses				
Salaries and benefits		1,739,474		1,610,941
Rent		506,321		443,516
Bottle deposits refund		211,840		167,347
Professional fees		42,954		12,989
Repairs and maintenance		106,712		90,324
Office		183,213		109,246
Bank charges and interest		81,777		75,649
Property taxes and utilities		84,347		74,117
Travel		15,614		23,191
Communication		10,435		36,777
Amortization		16,889		14,529
Training and development		1,410		3,458
Advertising and promotion		38,933		-
Bad debt provision		946		-
		3,040,865		2,662,084
Revenue in Excess (Deficit) of Expenses	$(	208,357)	$	905,528

NUNAVUT LIQUOR COMMISSION

SCHEDULE 2 - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31,	2015	2014
Income		
Import fees	$ 722,104	$ 728,026
Licence, fees and permits	199,683	192,054
Prior year recoveries	779,350	-
	1,701,137	920,080
Expenses		
Salaries and benefits	159,306	215,499
Contractor fees	94,968	79,437
Plebiscites expenses	2,246	11,070
Travel	37,772	80,154
Bank charges and interest	25,688	17,653
Office	8,362	3,138
Communication	1,492	2,685
	329,834	409,636
Revenue in Excess of Expenses	$ 1,371,303	$ 510,444